



**Subject: ACCOUNTING AND FINANCIAL REPORTING - RELATIONSHIP OF
ACCOUNTING TO BUDGET**

- 2-20-00 Background
 - 10 Supporting the Budget Formulation Process
 - 20 Supporting Budget Execution and Program Operations
 - 30 Cost Finding, Cost Accounting, and Other Allocation Methods
 - 40 Control of Funds Through the Accounting Classification Structure

2-20-00 Background

The need to perform many of the accounting or finance processes is required by law. This includes the administrative control of funds procedures and the need to substantiate and support various aspects of budget formulation and budget execution. Further requirements of accounting systems results from management and program data needs and from guidelines of the General Accounting Office (GAO) Office of Management and Budget (OMB), and the Treasury.

Accurate and meaningful accounting data are essential to sound budget estimating and programing since results of prior periods and projections of such experience usually form the basis for forecasting future budget authority needs and outlay estimates. The actual data in various schedules of the Budget Appendix are products of the accounting systems. The Budge Appendix by OMB from input by government agencies is an important document used by Congress and the public. The Appendix is an annual report prepared in January showing the President's Budget for the past, current, and succeeding fiscal years. The past fiscal year data is based, in part, on actual amounts reported and shown in Treasury's Year-End Closing Statement TFS-2108, OMB's SF-133 Report on Budget Execution and various other supporting financial reports.

The accounting process serves an equally important role in the execution of the budget. It must provide up-to-date information for controlling funds, and to enable managers to track the progress of program obligations for conformance with OMB apportionment limitations or highlight problems through financial reports, that dictate altering the course of operations. In addition, up-to-date accurate disbursements and collection data are vital to tracking and monitoring outlay

estimates that are required for various budget updates and OMB reports that occur throughout the year.

A. Uniformity of Classifications

Several parts of the Accounting Manual describe the uniform approach that must be taken when assigning descriptors and codes as part of the accounting and budget classification structure. The structure includes, for example, fiscal year and appropriation, budget activity, budget sub-activity, budget sub-activity, allotment, allowance, cost center, etc. Accuracy and uniformity of these elements are key to the ability to respond to the information needs of managers, the budget requirements, and administrative control of funds processes. As a result of proper coding and structure, the accounting system should be able to produce numerous varieties of data needed for effective managing and budgeting.

B. Developing the Classification and Assigning Codes

This process, which is usually monitored by the finance office, cannot be done efficiently and properly without active coordination among budget, program, contract and grant, administrative, and accounting staffs. When completed, the coding and structure must serve all of the aforementioned needs. Chapter 4-30, Common Accounting Number, prescribes the common accounting number structure and Chapter 3-30, Internal Machine Number, and Description File, prescribes the pyramidal structure of the accounting and budget structure. The common accounting number structures are illustrated in X4-30-1 and X4-30-2.

2-20-10 SUPPORTING THE BUDGET FORMULATION PROCESS

The Formulated budget material includes, for example, the program and financing schedule, object classification schedules, federal credit data, business-type statement, along with several other supporting schedules, all of which contain, in some form, actual data of the accounting system. These results frequently enter into decisions concerning amounts of new budget authority that may be requested and subsequently approved. Thus, it is necessary that the data are correct. An examination of the program and financing schedule for a no-year account illustrates the importance of accounting data. The amount of new budget authority requested is a by-product of the estimated program level as well as the accounting system's unobligated balance from the prior year. If the latter is incorrect, the planned program level requested could be under or over funded and inappropriate. For budget formulation purposes, OMB Circular A-11 contains a comparison of data including the Treasury Combined

Statement (which is prepared by Treasury based on the Year-End TFS-2108 report prepared by the accounting office), budget's program and financing schedule, and the Report on Budget Execution, SF-133. This comparison shows the need for consistency among these reports and schedules in order to correctly prepare the budget. Furthermore, agency heads are required to certify as to the validity of all obligations furnished in support of the budget.

The outlay portion of the budget also can have a significant influence on the amounts appropriated, since current outlays resulting from previously obligated funds as well as newly obligated funds--along with receipts--results in budget deficits or surpluses. Actual outlays are obtained from the accounting records. These are used as a basis for projecting outlays for both the current year and budget year. In many cases, for example, monthly and annual obligations and outlay data from the accounting records can be a very accurate predictor when simplified statistical analyses or comparisons are applied. Thus, not only are the year-end type accounting reports important but the monthly products are equally as useful.

2-20-20 SUPPORTING BUDGET EXECUTION AND PROGRAM OPERATIONS

A. Timely Reports of Current Operations

Up-to-date and timely accounting reports can aid significantly in tracking program operations and executing the budget. For example, the amount of obligational authority apportioned under a continuing resolution is based on the rate of obligation in previous years. In addition to historical tabulations of obligations incurred and paid, program managers can benefit from timely commitment accounting reports. Budget execution functions such as tracking and adjusting allotments, allowance, and operating plans; reviewing and monitoring reimbursable and fund transfer activities; monitoring staffing and payroll; insuring that travel or other limitations are within ceiling, and developing and tracking apportionments can depend heavily on timely and current information from accounting systems.

Reports prepared to maintain the internal operations of an accounting system are usually inadequate for budget and program purposes since accounting listings are usually cryptic in nature, frequently contain codes which are difficult to translate and, in many instances contain more information than is needed for management of operations. For these reasons, the accounting office must take the lead in assisting budget, program, contracting, grant, and administrative officials to develop reports and other data

peculiar to the operation of the organization as well as for budgeting purposes.

B. Information Exchange and Document Flow

Accounting systems are more effective when budget, program, and administrative offices give full support to the process through day-to-day exchanges of information and by insuring a smooth flow of paperwork that represents accounting transaction input. The exchange of information must be in both directions to the offices being supported by the accounting system, and from the supported offices. Changes to the budget structure, organization structure, reimbursable agreements, and activities, fiscal cut-off or closing dates, and changes to policy or procedures because of OMB or Treasury revisions are but a few examples of alterations to routine operations that, through information exchanges, can avoid or reduce unnecessary work of any of the affected organizations.

The flow of documents to an account office is of significant importance as is a high degree of accuracy of the documents in insuring that up-to-date accounting reports are available. Tests should be performed periodically by the organizations involved to determine that the flow of documents is timely and without serious obstacles. Accounting offices should time-stamp all incoming document to aid in such tests. The accounting office should also test its internal document and transaction flow to determine if it is efficient and effective.

Another important consideration is that organizations supported by accounting reports should provide negative or positive feedback to the accounting office indicating that reports are correct or that transactions are questionable. Further, certain reports which are sent by the accounting office to OMB should be reviewed by the budget office before being transmitted. This will help insure that apportionment data and SF-133 are consistent.

**2-20-30 COST FINDING, COST ACCOUNTING, AND OTHER ALLOCATION
METHODS**

Cost finding and allocation methods are alternatives when methods of operations prevent direct charging of obligations or expenditures to a specific cost center, program, or activity. Such a situation can occur when, for example, an employee performs work on behalf of two or more programs or performs intermittent work on a reimbursable project, as well as for the program to which the employee is routinely assigned. When such efforts cannot be easily identified and accounted for extraordinary procedures are required to account for the costs/obligations/expenditures on a collective basis, then through a redistribution technique, the charges are allocated to the various programs or activities.

The redistribution process must be a formally documented procedure that can be substantiated through audit. Cost accounting and cost finding are acceptable methods. Cost accounting is usually the more expensive and formal process, frequently applying units of measure to accumulated costs for subsequent reallocation. Cost finding is normally used when infrequent allocation or redistribution is needed. The data produced are usually not as precise because this process is not an integral part of the accounting system. However, this latter procedure may be the most reasonable and economical approach to the problem.

**2-20-40 CONTROL OF FUNDS THROUGH THE ACCOUNTING CLASSIFICATION
STRUCTURE**

The accounting and budget classification structure and codes discussed in Department Accounting Manual Chapters 3-30 and 4-30 are key to the preparation of data and reports required by various laws, regulations, and management. The development of the structure and specific codes are not the sole responsibility of the accounting staff. As demonstrated earlier, the budget program, and administrative staffs must contribute to this process in order to insure that all needs are met.

The code hierarchy prescribed in Chapter 3-30-30 serves a number of purposes, two of which are budget formulation and budget execution. Some of the important code elements that serve these functions are:

<u>Fiscal Year</u>	The Appropriation act or other law prescribes the fiscal year.
--------------------	--

<u>Appropriation</u>	This number is determined by appropriation act or as a result of other laws permitting creation of an account.
<u>Allotment</u>	Within each appropriation, a limited number of allotments are issued to control and administer funds. Not less than one allotment is required for each appropriation of other fund, and fund limitation as appropriate, which is subject to obligations and expenditures including reimbursements, revolving fund resources, and funds transferred-in from external agencies. It is practical to do so, the allotment should be kept at the major budget activity level.
<u>Allowance</u>	There must be not less than one allowance per allotment. The allowances are subdivisions of allotments and may identify fund authorization at the budget sub and sub-sub-activity level.
<u>Budget Activity, Sub-activity, and Sub-Sub-activity</u>	These three elements are formal sub-designations of the appropriation account as depicted in the President's Budget Appendix and other documents. The Sub-activity and sub-sub-activity elements are shown in the Appendix as "indented" sub-elements of budget activity. These elements must be coded in accounting systems in the manner and form presented in the budget as amended by Congressional expression in appropriation acts. This is necessary to insure that the budget is executed according to the desires of the President and Congress and for the purpose of being able to support the next year's budget. The assignment of Common Accounting Numbers (CANs) allotments and allowances must be done in a manner that is consistent with budget activity coding.

Chapter 4-30 prescribes the manner in which the Common Accounting Number (CAN) is developed and applied. In brief, the CAN is a code, at the bottom of the classification hierarchy, that is used along with other transaction information, such as contract number and dollar amount, to facilitate linking such transaction data to the accounting classification elements

described above which have been previously entered in the accounting system. The computerized accounting system performs this linking function, thus permitting input of a minimal amount of data with each transaction by the accounting staff.

Not less than one CAN must be assigned and used within each allowance. The number of CANs generally should be kept to a minimum but not to the point of diminishing the need to maintain separate accountability where managers dictate that such controls are essential. Above all, CANs must be representative of the entire accounting and budget classification in order to insure that all of the functions and needs are served.

An illustration of the CAN assignment is found in Exhibit 4-30-1.